

Indofood Sukses Makmur Tbk (INDF IJ)

4Q19's Review: Strong Margins and Better Earnings

INDF posted significant profit growth in FY19 compared to FY18's growth; that was attributable to its positive performance—particularly CBP and Bogasari's best performance as well as improving margins of the agribusiness and distribution segments. We project that FY20's revenue and earnings are likely to weaken as the large-social restrictions (PSBB) and uncertain Idul Fitri holiday bonuses (THR) payout are two hiccups in solid domestic consumption. Despite the hiccups, INDF's outlook is pretty sound as it is one of the defensive players and the market leader in food-branded products.

Net Profits and Margins Improve

INDF in 4Q19 posted a 4.4% y-y hike to IDR76 trillion in revenue or a slight growth in comparison to FY18's revenues. However, INDF posted double-digit growth of 17.8% to Rp4.9 trillion. FY19's higher margins necessarily meant low COGS to spur GPM at 29.7% (vs. FY18's 17.5%) and OPM at 12.8% (vs. FY18's 11.9%). Furthermore, no exchange rate losses increased NPM to 6.4% (vs. FY18's 5.7%). Of notes, domestic sales to reach *circa* 89% were the largest contributor to the total sales along with 2019's robust CCI, premium products, and rising middle-class.

CBP Segment Is Top Contributor

Based on the segmental breakdown, consumer branded products (CBP) segment—the top contributor (55% of total revenue) reported a 10.4% y-y growth to Rp42.4 trillion in revenues from Rp38.4 trillion in FY18. We are certain that INDF's instant noodles with new variants at least for the next 2-3 years still dominate Indonesia's noodle market share. New products' successful launch and attractive promotions are key to CBP's higher sales in FY19 compared to FY18's sales. FY19's EBIT margins cumulatively increased to 17% (vs. FY18's 15%). The second-largest contributor to INDF's revenues was the Bogasari segment (23.7% of the total revenue) as the Bogasari segment posted sales of Rp18.2 trillion increasing by 5.7% from Rp17.2 trillion aligning with weak prices of wheat and rising ASP. Declining prices of wheat curbed costs of imported raw materials. The third-largest contributor was the agribusiness segment (16.4% of the total revenue) to post contracted sales of 3.7% equal to Rp11.7 trillion due to higher credit losses to plasma receivables, impairment of asset, and higher financial expense. Nevertheless, FY18's contracted sales were smaller the FY18's sales contraction because prices of CPO in 2H19 were at the bullish trend. Finally, the fourth-largest contributor to INDF's revenue was the distribution segment (5.4% of the total revenues) alike the agribusiness segment to record contracted revenues of IDR4.1 trillion or decreasing by 24.7% from IDR5.4 trillion in FY18. But, EBIT margins hike to 5% (vs. FY18's 3%).

BUY Recommendation with Price Target IDR7,825

JCI and INDF recorded sharp declines with respect to the virus containment to shut the economic activities. Of note, INDF recorded a 24.11% decrease since the early of 2020. We predict 1H20's soft consumption on grounds of mandatory PSBB and uncertain THR payout leaves FY20's revenues growth of 1.6% (vs. FY19's 4.4%). However, INDF is likely capable of maintaining net gearing ratios at the optimal level, backed by it all segments' positive performance. We on grounds of those factors recommend BUY for INDF with the price target of IDR 7,825 and a forward P/E of 12.4x compared to the current 12M forward P/E valuation of 11.54x. Risks arising from our price targets are 1) USD/IDR depreciation, 2) soft consumption, 3) volatile prices of commodities.

Indofood Sukses Makmur Tbk | Summary (IDR bn)

	2019A	2020E	2021F	2022F
Sales	76,593	77,831	80,083	82,508
<i>Sales growth</i>	4.4%	1.6%	2.8%	3.1%
EBITDA	12,840	11,772	13,809	14,902
Net Profit	4,908	4,476	5,556	6,021
EPS (IDR)	559	510	633	686
<i>EPS growth</i>	17.8%	-8.8%	24.1%	8.4%
NPM	6.4%	5.8%	6.9%	7.3%
ROE	9.4%	8.1%	9.5%	9.6%
ROA	5.1%	4.6%	5.5%	5.6%
P/E	14.2x	11.9x	12.4x	11.4x
P/BV	1.3x	0.9x	1.1x	1.1x
EV/EBITDA	8.1x	7.4x	7.3x	6.5x
<i>Dividend yield</i>	2.2%	3.3%	2.8%	3.2%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Dec. 2020 PT (IDR)	7,825
Consensus Price (IDR)	8,238
TP to Consensus Price	-5.0%
vs. Last Price	+31.0%

Shares data

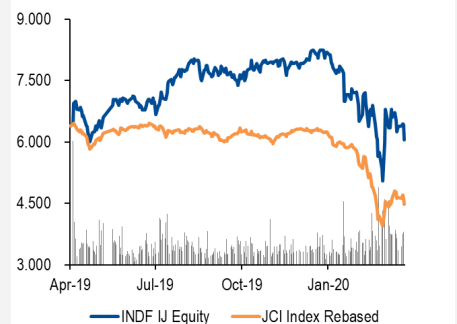
Last Price (IDR)	6,425
Price date as of	Apr 15, 2020
52 wk range (Hi/Lo)	8,250 / 5,050
Free float (%)	49.9
Outstanding sh.(mn)	8,780
Market Cap (IDR bn)	54,219
Market Cap (USD mn)	3,505
Avg. Trd Vol - 3M (mn)	10.04
Avg. Trd Val - 3M (bn)	68.08
Foreign Ownership	100.0%

Consumer Staples

Packaged Foods

Bloomberg	INDF IJ
Reuters	INDF.IK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-24.1%	-5.8%	-26.0%	-6.2%
Rel. Ret.	-28.7%	-4.5%	-28.7%	-30.9%

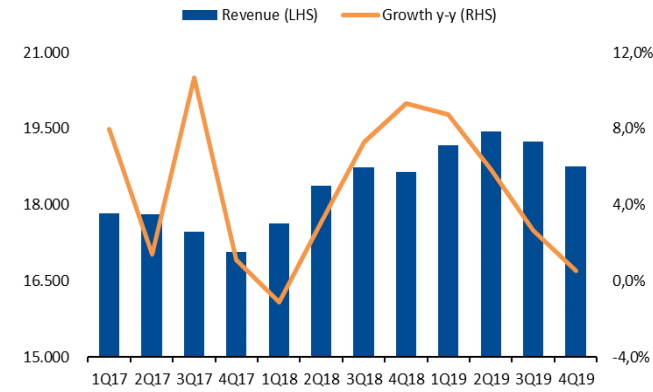
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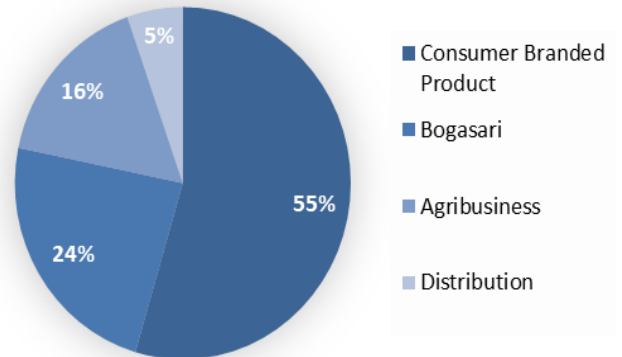
Performance Highlights

INDF's quarterly revenues | 1Q17 - 4Q19



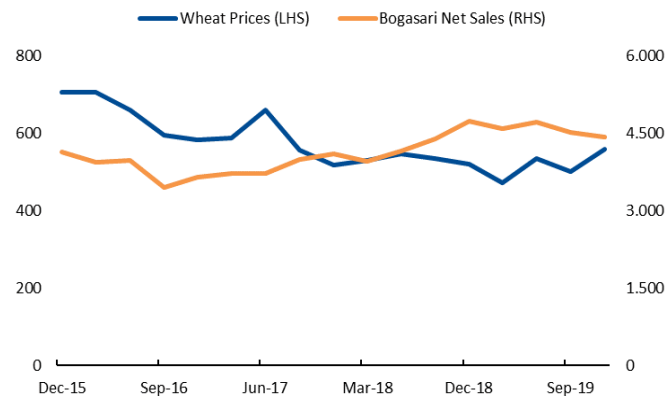
Source: Company Data, NHKSI Research

Sales Breakdown | 4Q19



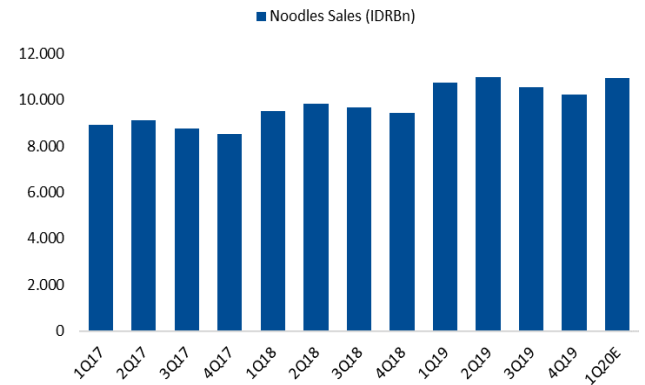
Source: Company Data, NHKSI Research

Wheat Prices vs. Flour Net Sales | 4Q15—4Q19



Source: Company Data, NHKSI Research

Sales of Consumer-Branded Products | 1Q17- 4Q19



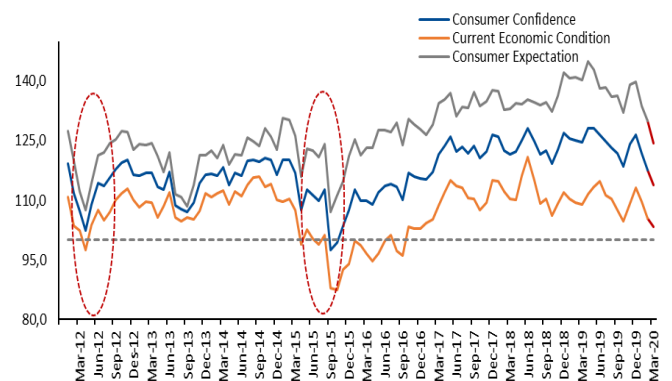
Source: Bloomberg, NHKSI Research

Trends in CPO Prices | 4Q15-4Q19



Source: Company Data, NHKSI Research

Indonesia's Consumer Confidence Index | 2012 - 2020



Source: Bloomberg, NHKSI Research

4Q19's review (IDR bn)

	4Q18	1Q19	2Q19	3Q19	4Q19					1Q20E
					Actual	Estimate	y-y	q-q	surprise	
Sales	18,653	19,170	19,439	19,236	18,748		0,5%	-2.5%		18,985
Gross Profit	4,742	5,797	5,563	5,638	5,717		20.6%	1.4%		4,661
<i>Gross Margin</i>	25.4%	30.2%	28.6%	29.3%	30.5%		5.1%	1.2%		24.6%
EBIT	2,371	2,555	2,201	2,325	2,711		14.4%	16.6%		1,616
<i>EBIT Margin</i>	12.7%	13.3%	11.3%	12.1%	14.5%		1.8%	2.4%		8.5%
EBITDA	3,086	3,227	2,985	3,132	3,497		13.3%	11.7%		2,339
<i>EBIT Margin</i>	16.5%	16.8%	15.4%	16.3%	18.7%		2.1%	2.4%		12.3%
Net Profit	1,346	1,349	1,196	986	1,377		2.3%	39.7%		787
<i>Net Margin</i>	7.2%	7.0%	6.2%	5.1%	7.3%		0.1%	2.2%		4.1%

Source: Bloomberg, NHKSI research

Revisions to Earnings (IDR bn)

		2020E	2021F	2022F
Sales	-Revised			
	-Previous	77,831	80,038	82,508
	-Change			
Gross Profit	-Revised			
	-Previous	21,931	24,173	25,492
	-Change			
Gross Margin	-Revised			
	-Previous	28.2%	30.2%	30.9%
EBIT	-Revised			
	-Previous	8,798	10,667	11,570
	-Change			
EBIT Margin	-Revised			
	-Previous	11.3%	13.3%	14.0%
Net Profit	-Revised			
	-Previous	4,908	4,476	5,556
	-Change			
Net Margin	-Revised			
	-Previous	6.3%	5.6%	6.7%

Source: NHKSI research

A Glance at INDF

Indofood (INDF) has transformed into a Total Food Solutions company within the last two decades as INDF's operational activities cover all phases of food manufacturing— to start from production and processing of raw materials to product distribution in the markets. INDF is well known for its credibility as a leading company in each of its business segments, and its operational activities capitalize on economies of scale and resilient business model consisting of 4 integrated strategic business segments (Group).

The consumer branded products (CBP) is supported by the strength of its products. The CBP segment produces varied consumer-branded products, i.e., instant noodles, dairy, snacks foods, food seasonings, nutrition & special foods, and beverages. Meanwhile, the Bogasari segment equipped with shipping & packaging business units produces wheat flour and pasta. Furthermore, the agribusiness segment covers activities, i.e., researches & development, seed breeding, oil palm cultivation & milling to the production and marketing of branded cooking oil, margarine and shortening. The segment also cultivates and processes rubber, sugar cane, and other crops. In addition, the distribution segment distributes most of consumer products manufactured by Indofood and its subsidiaries as well as by the third parties, to markets.

Asia Pacific-based Consumer Company

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
INDF	3,506	6,947	5,416	347	17.81%	6.4%	13.7%	11.0x	1.4x
ICBP	7,712	2,382	2,914	347	17.38%	11.9%	22.2%	23.9x	5.0x
Japan									
Nissin Foods Holdings	8,955	5,034	4,241	186	-18.17%	4.4%	6.0%	46.9x	2.8x
Toyo Suisan Kaisha Ltd	5,546	3,523	3,751	192	24.00%	5.1%	7.0%	26.3x	2.8x
South Africa									
Pioneer Foods Group Ltd	1,251	967	1,554	63	-15.18%	4.1%	10.5%	21.5x	2.7x
South Korea									
Samyang Foods Co Ltd	619	407	467	51	71.02%	11.0%	23.1%	12.6x	2.7x
Nongshim Co Ltd	1,439	2,297	2,012	61	-15.77%	3.0%	3.7%	23.5x	0.9x
Ottogi Corporation	1,587	1,863	2,026	83	-39.46%	4.1%	7.8%	18.0x	1.4x
Thailand									
Thai President Foods	1,921	1,151	773	127	15.82%	16.4%	17.8%	15.8x	2.7x
Thai Union Group	1,834	4,769	4,069	123	17.19%	3.0%	8.3%	15.2x	1.2x
Malaysia									
Nestle Berhad	7,533	667	1,332	162	2.13%	12.2%	102.0%	48.9x	49.5x
PPB Group Berhad	5,479	5,771	1,131	278	7.20%	24.6%	5.4%	20.8x	1.1x
India									
Nestle India Ltd	22,244	991	1,754	280	22.57%	15.9%	70.3%	86.4x	88.0x
Britannia Industries Ltd	8,987	900	1,570	166	15.42%	10.6%	30.3%	59.3x	16.2x

Source: Bloomberg

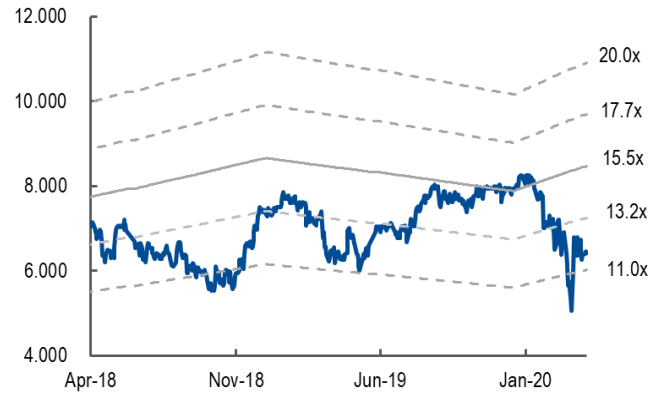
Multiple Valuation

Forward P/E band | Last 3 years



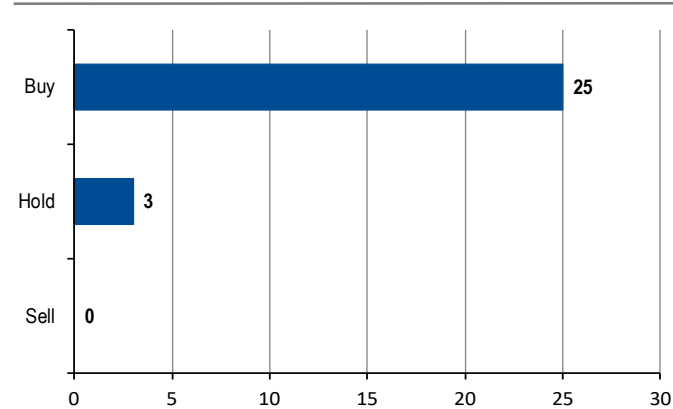
Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



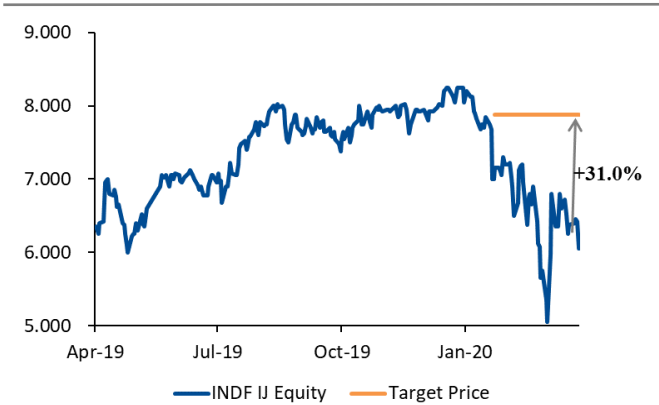
Source: NHKSI research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Sales	76.593	77.831	80.038	82.508	ROE	9,4%	8,1%	9,5%	9,6%
<i>Growth</i>	4,4%	1,6%	2,8%	3,1%	ROA	5,1%	4,6%	5,5%	5,6%
COGS	(53.877)	(55.900)	(55.865)	(57.015)	ROIC	9,2%	8,8%	10,1%	10,4%
Gross Profit	22.716	21.931	24.173	25.492	Cash Dividend (IDR bn)	1.501	1.768	1.893	2.184
<i>Gross Margin</i>	29,7%	28,2%	30,2%	30,9%	Dividend Yield	2,2%	3,3%	2,8%	3,2%
Operating Expenses	(12.924)	(13.133)	(13.506)	(13.922)	Payout Ratio	36,0%	36,0%	42,3%	39,3%
EBIT	9.792	8.798	10.667	11.570	DER	40,5%	39,8%	38,8%	37,5%
<i>EBIT Margin</i>	12,8%	11,3%	13,3%	14,0%	Net Gearing	33,9%	28,3%	17,2%	6,1%
Depreciation	3.048	2.975	3.141	3.332	LT Debt to Equity	16,5%	14,7%	14,4%	13,9%
EBITDA	12.840	11.772	13.809	14.902	Capitalization Ratio	28,8%	28,5%	28,0%	27,3%
<i>EBITDA Margin</i>	16,8%	15,1%	17,3%	18,1%	Equity Ratio	56,3%	57,2%	58,0%	58,8%
Interest Expenses	(1.462)	(1.244)	(1.201)	(1.288)	Debt Ratio	22,8%	22,8%	22,5%	22,0%
EBT	8.749	7.980	9.905	10.733	Financial Leverage	181,9%	185,4%	173,3%	169,5%
Income Tax	(2.847)	(2.597)	(3.223)	(3.493)	Current Ratio	106,6%	127,2%	130,0%	138,6%
Minority Interest	(994)	(994)	(907)	(1.126)	Par Value (IDR)	100	100	100	100
Net Profit	4.908	4.476	5.556	6.021	Total Shares (mn)	8.780	8.780	8.780	8.780
<i>Growth</i>	17,8%	-8,8%	24,1%	8,4%	Share Price (IDR)	7.925	6.050	7.825	7.825
<i>Net Profit Margin</i>	6,4%	5,8%	6,9%	7,3%	Market Cap (IDR tn)	69,6	53,1	68,7	68,7

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Cash	13.745	14.803	18.270	22.045	Price /Earnings	14,2x	11,9x	12,4x	11,4x
Receivables	5.406	5.844	5.710	5.917	Price /Book Value	1,3x	0,9x	1,1x	1,1x
Inventories	9.659	10.535	10.705	10.544	Price/Sales	0,9x	0,7x	0,9x	0,8x
Total Current Assets	31.403	33.639	37.141	40.964	PE/EPS Growth	0,8x	-1,3x	0,5x	1,4x
Net Fixed Assets	43.387	44.342	45.682	47.053	EV/EBITDA	8,1x	7,4x	7,3x	6,5x
Other Non Current Asset	64.795	65.798	67.114	68.497	EV/EBIT	10,6x	9,9x	9,4x	8,4x
Total Assets	96.199	99.437	104.255	109.461	EV (IDR bn)	104.054	87.201	100.173	97.050
Payables	4.522	4.212	4.449	4.419	Sales CAGR (3-Yr)	4,6%	4,7%	3,5%	2,9%
ST Bank Loan	13.006	14.247	14.784	15.195	EPS CAGR (3-Yr)	5,8%	2,6%	10,1%	7,0%
LT Debt	8.948	8.376	8.692	8.933	Basic EPS (IDR)	559	510	633	686
Total Liabilities	41.996	42.596	43.753	45.120	Diluted EPS (IDR)	559	510	633	686
Capital Stock	1.162	1.162	1.162	1.162	BVPS (IDR)	6.173	6.474	6.891	7.328
Retained Earnings	26.780	29.418	33.081	36.918	Sales PS (IDR)	8.723	8.864	9.116	9.397
Shareholders' Equity	54.203	56.840	60.503	64.340	DPS (IDR)	171	201	216	249

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E	By Geography	% Shareholders	%	
Operating Cash Flow	13.345	6.156	9.033	9.969	Unknown	81,9	FPIML	50,1
Investing Cash Flow	(584)	(4.000)	(4.526)	(4.662)	United States	9,7	Vanguard Group Inc	1,8
Financing Cash Flow	(7.660)	(1.098)	(1.041)	(1.531)	Luxembourg	1,5	Blackrock	1,5
Net Changes in Cash	5.100	1.058	3.466	3.776	Ireland	1,0	Dimensional Fund A.	1,5

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